

INTRASTATE TOLL  
APPLICANTS

181	Switched Services Communications, L.L.C.	1122 Capital of Texas Highway South, Austin, TX 78746	(512) 328-1112	95-04-05	8/23/95	*
182	TCG Connecticut.	Two Teleport Drive, Staten Island, NY 10311	(718) 355-2949	93-11-19	7/13/94	*
183	TCl Telephony Services of Connecticut, Inc.	222 New Park Drive, Berlin, CT 06037	(860) 505-3309	96-04-33	8/21/96	*
184	Tel-Save, Inc. d/b/a Network Services or The Phone Company	6805 Route 202, New Hope PA 18938	(215) 862-1500	95-09-02	2/21/96	*
185	Telcorp, Ltd.	1250 Broadway, Hewlett, NY 11557	(516) 569-5000	95-04-12	1/10/96	*
186	Tele Tower, Inc.	84-21 37th Avenue, Flushing, NY 11369	(718) 281-4727	97-08-09	11/19/97	*
187	Telec, Inc.	27601 B Schoolcraft, Livonia, MI 48150	(313) 427-9520	96-10-23	3/5/97	*
188	Telecarrier Services, Inc.	107 South Avenue West, Cranford, NJ 07017	(908) 276-0600	95-08-16	12/6/95	*
189	TeleConnect Long Distance Services and Systems Company d/b/a Telcom*USA	1801 Pennsylvania Avenue, NW, Washington, DC 20006	( )	95-12-06	2/11/97	*
190	Teleglobe USA, Inc.	1751 Pinnacle Drive, Suite 1600, McLean, VA 22102	(703) 714-6600	97-03-25	8/20/97	*
191	Telegroup, Inc.	505 North 3rd Street, Fairfield, IA 52556	(515) 472-5000	95-12-13	4/3/96	*
192	Telekey, L.L.C.	229 Peachtree Street, Suite 1102, Atlanta, GA 30303	(404) 577-3888	97-04-20	12/31/97	*
193	TelSave Corp. of Idaho d/b/a Independent Network Services	2600 North Central Avenue, Suite 1750, Phoenix, AZ 85004	(602) 248-8495	96-11-05	4/2/97	*
194	Telscape USA, Inc.	4635 Southwest Freeway, Suite 800, Houston, TX 77027	(713) 968-0968	96-09-03	12/4/96	*
195	The Furst Group	Furst Commerce Center, 459 Oakshade Road, Shamong, NJ 08088	(800) 818-4736	96-02-11	5/23/96	*
196	The Phoneco, Inc. d/b/a Network Services Long Distance	1 Neshaminy Interplex, Suite 105, Trevose, PA 19053	(215) 244-4334	96-11-13	2/5/97	*
197	Total Tel, Inc. f/k/a TotalTel USA Communications, Inc.	470 Collfax Avenue, Clifton, NJ 07013	(201) 773-7000	94-06-41	3/15/95	*
198	Touch 1 Communications, Inc.	100 Brookwood Road, Almore, AL 36502	(334) 368-8600	96-04-13	11/6/96	*
199	Touch 1 Long Distance, Inc. (now a subsidiary of WorldCom)	515 East Amite Street, Jackson, MS 39201	(601) 360-8700	96-10-22	2/5/97	*
200	Trans National Communications International, Inc.	133 Federal Street, Boston, MA 02110	(617) 889-0800	96-06-13	10/16/96	*
201	Transcommunications, Inc.	6025 Lee Highway, Suite 402, Chattanooga, TN 37421	(423) 954-9961	96-08-23	7/30/97	*
202	TresCom U.S.A., Inc.	200 East Broward Boulevard, Suite 2100, Ft. Lauderdale, FL 33301	(954) 763-4000	96-05-04	10/16/96	*
203	TTI National, Inc.	515 East Amite Street, Jackson, MS 39201		96-05-29	10/30/96	*



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204	U S WEST Interprise America	1999 Broadway (suite 700), Denver, CO 80202	(303) 293-6326	96-12-21	7/23/97	*
205	U S WEST Long Distance, Inc.	1801 California, 28th FL, Denver, CO 80202	(303) 672-1021	96-12-17	3/19/97	*
206	Unidial Incorporated	12910 Shelbyville Road, Suite 211, Louisville, KY 40243	(502) 227-6666	94-06-03	11/2/94	*
207	United Wats, Inc.	7000 Squibb, Suite 310, Mission, KS 66202	(800) 342-9287	95-10-25	2/21/96	*
208	Universal Connectivity, Inc.	P. O. Box 271616, West Hartford, CT 06127-1616		95-10-20	6/12/96	*
209	Universal Network Services of Connecticut, Inc.	2 Corporate Plaza, Suite 200, Newport Beach, CA 92660	(714) 760-9200	95-07-20	3/20/96	*
210	US South Communications, Inc. d/b/a US South and d/b/a Incomm	200 Galleria Parkway, Suite 330, Atlanta, GA 30339	(404) 953-1520	96-01-10	5/8/96	*
211	US WATS, Inc.	111 Presidential Boulevard, Suite 114, Bala Cynwyd, PA 19004	(610) 660-0100	96-10-07	3/25/97	*
212	USA Global Link, Inc.	50 North Third Street, Fairfield, IA 52556	(515) 472-1550	96-09-06	11/13/96	*
213	USA Tele Corp.	351 S. Cypress Road, Suite 400, Pompano Beach, FL 33069	(954) 463-7900	97-06-28	9/10/97	*
214	USN Communications Long Distance, Inc. f/k/a United Telcom of America, Inc.	2 Penn Plaza, Suite 1700, New York, NY 10121		96-06-05	1/31/96	*
215	USTel, Inc.	2775 South Rainbow, Suite A-102, Las Vegas, NV 89102	(702) 247-7400	95-11-13	8/28/96	*
216	V.I.P. Telephone Network, Inc.	1966 Greenspring Drive, Suite 500, Timonium, MD 21093	(800) 348-6655	95-05-11	9/11/96	*
217	Vartec Telecom, Inc.	3200 West Pleasant Run Road, Lancaster, TX 75146	(214) 230-7200	95-03-22	7/26/95	*
218	Vista Group International, Inc.	821 Westpoint Parkway, Suite 290, Westlake, OH 44145	(800) 701-6000	96-05-27	12/18/96	*
219	Vista International Communications, Inc.	353 Route 206, Box 819, Flanders, NJ 07836	(800) 722-9090	93-10-12	7/6/94	*
220	Voyager Network, Inc.	1930 West Main Street, Stamford, CT 06902	(203) 967-9343	94-01-19	7/6/94	*
221	Western Union Communications, Inc.	c/o First Data Corporation, 6200 S. Quebec Street, Englewood, CO 80111	(303) 488-8237	95-04-06	10/18/95	*
222	Westinghouse Electric Corporation d/b/a Westinghouse Communications	902 Brinton Road, Pittsburg, PA 15221	(412) 244-6600	94-08-07	5/24/95	*
223	WinStar Gateway Network, Inc.	8585 N. Stemmons Freeway, Suite 1100 South, Dallas, TX 75247	(214) 672-4700	95-06-21	1/31/96	*
224	WinStar Wireless of Connecticut, Inc.	7799 Leesburg Pike, Suite 401 South, Tyson's Corner, VA 22043	(703) 917-6556	95-11-03	1/3/96	*



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225	Working Assets Funding Service, Inc.	701 Montgomery Street, Suite 400, San Francisco, CA 94111	(415) 788-0981	95-02-11	1/17/96	*
226	World Link Communications, Inc.	4360 Chamblee Dunwoody Road, Suite 430, Atlanta, GA 30341	(770) 455-4007	96-09-01	4/30/97	*
227	World Telecom Group, Inc.	The Landmark, Landings Drive, Mountain View, CA 94043	(415) 694-4977	94-05-27	11/2/94	*
228	WorldCom Network Services, Inc. d/b/a Wiltel Network Services, Inc	515 East Amite Street, Jackson, MS 39201	(601) 360-8700	92-06-07	11/10/93	*
229	WorldCom Technologies f/k/a MFS Intelenet of Connecticut, Inc.	6 Century Drive, Suite 300, Parsippany, NJ 07054	(201) 938-7300	94-03-04	8/3/94	*
230	WorldTel Services, Inc.	125 Pacifica, Suite 150, Irvine, CA 92718	(714) 727-0300	93-11-27	8/17/94	*
231	XIEX Telecommunications, Inc.	One Memorial City Plaza, 800 Gessner, Suite #900, Houston, TX 77024-4257		95-08-35	6/26/96	*
232	Xtracom, Inc.	935 West Chestnut, Suite 206, Chicago, IL 60622	(312) 243-8660	96-04-22	9/25/96	*
233	Z-Tel, Inc.	4403 S. E. 16th Place, Suite #1, Cape Coral, FL 33904	(800) 800-7275	97-06-22	10/28/97	*
234	ZENEX Long Distance, Inc. (see Also Advanced Telecommun. now merged into ZENEX)	3705 West Memorial, Suite 101-Z, Oklahoma City, OK 73134	(405) 749-9999	96-07-02	1/15/97	*
235	ZipCall Long Distance, Inc. f/k/a Message Center Long Distance, Inc.	40 Woodland Street, Hartford, CT 06105	(860) 278-2337	94-05-28	3/28/95	*
236	A C S TEL COM, INC.	100 Merick Rd., Suite 116W, Rockville Centre, NY 11570	(516) 255-9700 (212) 566-2100,	97-12-12	pending	p
237	A.R.C. Networks, Inc.	160 Broadway, Suite 908, New York, NY 10038	X23	97-06-07	pending	p
238	ACCUTEL Communications, Inc.	2124 Zip Code Place, suite 4, West Palm Beach, FL 33409	(888) 442-2288	97-09-31	pending	p
239	ACS Systems, Inc.	2510 N. Hill Avenue, Suite 230, Santa Ana, CA 92705-5542	(714) 622-4444	98-01-14	pending	p
240	American International Telephone, Inc.	287 Boman Ave., Purchase, NY 10577	(914) 251-1450	96-01-20	pending	p
241	American Tel Group, Inc.	5850 Eubank N. E., Suite B-16, Albuquerque, NM 87111	((800) 828-2317	97-06-27	pending	p
242	American Telcom, Inc. d/b/ FoneTel	26400 Southfield Road, Lathrup Village, MI 48076	(248) 557-5700	97-08-28	pending	p
243	American Telesave Club	3 Nolan Drive, Bloomfield, CT 06002	(860) 242-8396	96-05-18	pending	p
244	Americatel Corporation	4045 N.W. 97th Avenue, Miami, FL 33178	(305) 716-8700	97-12-25	pending	p



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245	Amturi Telcom	69-30 62nd Street, Suite 3J, Glendale, NY 11385	(718) 386-9698	96-02-15	pending	p
246	Avis Rent A Car System, Inc.	900 Old Country Road, Garden City, New York 11530	(516) 222-3000	96-11-12	pending	p
247	Brittan Communications International Corporation	600 Jefferson, Suite 500, Houston, TX 77002	(713) 659-8700	97-04-25	pending	p
248	Business Calling Plan, Inc.	1601 E. Flamingo Road, Suite 18-109, Las Vegas, NV 89119	(888) 299-6618	98-01-08	pending	p
249	C-Phone Corporation	6714 Netherlands Drive, Wilmington, NC 28405	(910) 395-6100	97-05-17	pending	p
250	Call Plus, Inc.	1350 Reynolds Avenue, Suite 105, Irvine, CA 92714	(714) 478-8393	96-06-16	pending	p
251	Calls For Less (CfL)	9915 South 148th Street, Omaha, NE 68138	(800) 211-5848	97-10-10	pending	p
252	Catholic Telecom, Inc.	80 West Bowery, Suite 100, Akron, OH 44308	(330) 535-0338	97-10-26	pending	p
253	Celebrity Phone Card Telecommunications	443 Park Ave., South, New York, NY 10016	(212) 889-0800	96-04-37	pending	p
254	Cherry Communications, Inc.	2205 Enterprise Drive, Suite 501, Westchester, IL 60154	(708) 449-7000	95-07-16	pending	p
255	Citizens Long Distance Company	1400 16th Street NW, Suite 500, Washington, DC 20036	(202) 332-5922	95-06-26	pending	p
256	ComTel Computer Corp.	6272 West 91st Street, Westminster, CO 80030	(303) 430-9200	97-06-12	pending	p
257	ConnectAmerica, Inc.	1841 Centre Point Drive, Suite 135, Naperville, IL 60563	(630) 505-0005	97-10-36	pending	p
258	CSI Corp	12835 East Arapahoe Road, Tower 1, 5th FL, Englewood, CO 80112	(303) 708-1000	98-01-16	pending	p
259	CTC Communications Corp.	360 Second Avenue, Waltham, MA 02154	(617) 466-8080	97-12-09	pending	p
260	Cypress Telecommunications Corporation	11811 North Freeway, Suite 800, Houston, TX 77060	(281) 591-3000	97-11-12	pending	p
261	Cypress Telecommunications	11811 North Freeway, Suite 800, Houston, TX 77060	(281) 591-3029	97-11-12	pending	p
262	Destiny Telcomm International, Inc.	100 Hegenberger Road, Suite 200, Oakland, CA 94261	(510) 563-3000	96-12-14	pending	p
263	Discount Plus a/k/a Key Communications Management	330 West Spring Street, Suite 101, Columbus, OH 43215		96-03-38	pending	p
264	Dispatch Communications of New England, Inc.	408 Morris Avenue, Springfield, NJ 07081	(201) 379-8871	96-08-11	pending	p



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265	Efficacy Group, Inc.	403 Woods Lake Road, Suite 140, Greenville, SC 29607		97-09-10	pending	p
266	Euronet Communications COrp.	25 Kilmer Drive, Suite 217, Morganville, NJ 07751	(732) 972-7300	97-12-01	pending	p
267	EZ Tel Corp.	406 Centre Street, Boston, MA	(617) 522-8933	97-07-17	pending	p
268	Facilicom International, L.L.C.	1401 New York Avenue, NW, 8th Floor, Washington, DC 20005	(202) 496-1100	97-07-15	pending	p
269	FaxNet Corporation	205 Portland Street, Boston, MA 02114	(617) 557-4300	97-05-10	pending	p
270	Federal TransTel, Inc.	2 Chase Corporate Drive, Suite 170, Birmingham, AL 35244	(800) 933-6600	95-09-28	pending	p
271	Fibernet, Inc.	2701 Ocean Park Boulevard, Santa Monica, CA 90405	(800) 401-0350	97-03-16	pending	p
272	Global Telemedia, Inc.	500 Northridge Road, Suite 780, Atlanta, GA 30350	(404) 642-4888	95-05-03	pending	p
273	GTI Telecom, Inc.	507 N. New York Avenue, 2nd Floor, Winter Park, FL 32789	(407) 629-2300	97-04-29	pending	p
274	Health Liability Management Corp.	13738 Oxbow Road, Ft. Meyers, FL 33905	(941) 694-0207	96-04-18	pending	p
275	International Gateway Communications, Inc	5601 West 120th Street, Alsip, IL 60658	(708) 489-9400	97-02-04	pending	p
276	International Telemanagment Group, Inc.	206 East Market Street, Lima, OH 45802		96-04-20	pending	p
277	LGM Communications, Inc.	955 Connecticut Avenue, Suite 5225, Bridgeport, CT 06607	(203) 331-1693	97-11-02	pending	p
278	Milliwave L.P.	1776 Eye Street NW, Suite 800, Washington, DC 20002	(202) 331-9882	96-10-35	pending	p
279	MTC Telemanagement Corporation	1304 Southpoint Boulevard, Petaluma, CA 94954	(707) 762-9600	97-03-27	pending	p
280	Net2000 Group, Inc.	8614 Westwood Center Drive, Suite 700, Vienna, VA 22182	(703) 610-1207	97-11-24	pending	p
281	Network Operator Services, Inc.	119 West Tyler, Suite 260, Longview, TX 75601	(903) 323-4500	97-11-26	pending	p
282	Nextar Communications, Inc.	2424 N. Federal Highway, Suite 450, Boca Raton, FL 33431	(561) 417-3717	98-01-07	pending	p
283	On Line Telecommunications	200 Division Street, P. O. Box 160, Ansonia, CT 06401	(203) 736-9283 x902	96-07-07	pending	p
284	Onsite Access, LLC	660 White Plains Road, Tarrytown, NY 10591	(914) 332-0660	97-09-21	pending	p
285	Pacific Gateway Exchange, Inc.	533 Airport Blvd., Suite 505, Burlingame, CA 94010	(415) 375-6700	97-12-10	pending	p



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286	Paradigm Communications corporation d/b/a Global Communications Network	401 Wilshire Blvd., 9th FL, Santa Monica, CA 90401	(407) 740-8575	97-10-22	pending	p
287	Parcel Consultants, Inc.	P. O. Box 14062, Ft. Fauderdale, FL 33302	(954) 764-5093	96-08-07	pending	p
288	Pride America, Inc.	5403 Ashton Court, Sarasota, FL 34233	(941) 924-5096	98-01-17	pending	p
289	Providian Group, LLC.	10175 Slater Avenue, Suite 200, Fountain Valley, CA 92708	(714) 378-2841	96-12-18	pending	p
290	QCC, Inc.	8829 Bond Street, Overland Park, KS 66214	(913) 492-1230	96-02-17	pending	p
291	Quintelco, Inc.	1 Blue Hill Plaza, Pearl River, NY 10965	(914) 620-1212	97-10-16	pending	p
292	RSL COM U.S.A.	169 EAB Plaza, West Tower, 8th Floor, Uniondale, NY 11556	(516) 465-7000	97-03-19	pending	p
293	SmartStop, Inc.	5440 SW Westgate Drive, Suite 217, Portland, OR 97221	(503) 672-5160	98-01-04	pending	p
294	Southwestern Bell	1651 North Collins Blvd., Suite 220, Richardson, TX 75080	(972) 497-0152	97-03-20	pending	p
295	Speer Virtual Media, Ltd.	3201 Dickerson Pike, Nashville, TN 37207	(615) 650-6600	97-07-23	pending	p
296	ST Long Distance, Inc.	5534 Bee Ridge Road, Sarasota, FL 34233	(941) 378-3532	97-04-15	pending	p
297	STAR Communications, Inc.	223 East De La Guerra Street, Santa Barbara, CA 93101	(805) 899-1962	97-08-16	pending	p
298	Strategic Telecom Systems, Inc.	6420 Baum Drive, Knoxville, TN 37919	(423) 584-4460	97-05-11	pending	p
299	TELCO Partners, Inc.	900 Commercia Building, Kalamazoo, MI 49007	(888) 305-3141	97-05-14	pending	p
300	Telecard Services International, Inc.	5835 NE 22nd Ave., Suite 155, Portland, OR 97220	(503) 256-5280	96-10-24	pending	p
301	TeleCommunications Systems, Inc. d/b/a TCS Network	275 West Street, Suite 400, Annapolis, MD 21401	(410) 263-7616	95-12-11	pending	p
302	TeleHub Network Services Corporation	16016 Carmel Bay Drive, Northport AL 35475	(205) 330-1701	97-11-20	pending	p
303	Telephone Company of Central Florida	3575 W. Lake Mary Blvd., Suite 107, Lake Mary, FL 32746	(407) 328-5002	97-12-11	pending	p
304	Teligent, Inc.	8065 Leesburg Pike, Suite 400, Vienna, VA 22182	(703) 762-5100	97-12-24	pending	p
305	Teltrust Communications Services, Inc.	21 N. Charles Lindberg Drive, Salt Lake City, UT 84116	(801) 535-2000	97-06-25	pending	p
306	The Millennium Group Telemanagement, LLC	165 Bishops Way, Suite 149, Brookfield, WI 53005	(414) 860-4300	97-10-19	pending	p
307	United Services Telephone, LLC	475 Metroplex Drive, Suite 106, Nashville, TN 37211	(615) 833-4797	97-08-03	pending	p



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308	Universal Telecom, Inc.	10777 Sunset Office Drive, Suite 20, Sunset Hills, MO 63127	(314) 984-5090	96-05-19	pending	p
309	USBG, Inc.	5601 West 120th Street, Alsap, IL 60658	(708) 389-3200	97-09-41		p
310	USN Communications Northeast, Inc.	10 S. Riverside Plaza, Suite 401, Chicago, IL 60606	(800) 887-6861	97-09-30	pending	p
311	VoCall Communications Corp.	284 Sheffield Street, Mountainside, NJ 07092	(908) 301-0090	97-07-01	pending	p
312	WorldTouch Communications, Inc.	1144 N. Plano Road, Suite 140, Richardson, TX 75081	(972) 994-9900	97-11-16	pending	p
313	America's Choice Communications, Inc.	60 Taugwonk Spur #53, Stonington, CT 06378	(860) 535-4100	96-09-12	revoked	r
314	Americconnect, Inc.	6750 W 93rd ST, Suite 110, Overland Park, KS 66212	(913) 341-8888	94-10-22	revoked	r
315	Corporate Telemanagement Group, Inc.	430 Woodruff Rd., Suite 450, Greenville, SC 29607	(803) 458-7302	93-08-15	revoked	r
316	DNS Communicarions, Inc	4635 Southwest Freeway, Suite 800, Houston, TX 77027		95-08-23	denied	r
317	IDB WorldCom Services, Inc.	515 East Amite Street, Jackson, MS 39201	(601) 360-8700	94-01-07	revoked- merge/- WorldCom	r
318	Keystone Long Distance, Inc.	1850 Centennial Park Drive, Suite 530, Reston, VA 22091	(703) 715-5319	94-08-27	6/28/95 Revoked 5/16/96	r
319	National Independent Carrier Exchange, Inc	6 West Main Street, Freehold, NJ 07728	(908) 409-3000	95-04-16	11/21/95 Revoked 5/8/96	r
320	Pennsylvania Alternative Communications, Inc. (PACE)	218 South Maple Avenue, Greensburg, PA 15601	(412) 8365800	93-07-08	revoked	r
321	Shared Technologies Fairchild, Inc., f/k/a Fairchild Industries	300 West Service Road, Chantilly, VA 22021		95-01-12	revoked	r
321	Target Telcom, Inc.	155 Willow Brook Boulevard, Wayne, NJ 07470	(201) 256-1600	94-06-60	6/20/97	r
322	Value Tel, Inc.	1050 North State Street, Suite 201, Chicago, IL 60610	(312) 654-7112	95-06-16	9/10/97	r
323	WorldCom, Inc. f/k/a MidAmerican Communications Corporation d/b/a LDDS Metromedia Communications	300 Ocean Avenue, 4th Floor, Revere, MA 02151	(617) 286-6000	93-09-17	revoked	r
324	AIS Telecommunications Services, Inc.	340 Oswego Pointe Dr., Suite 100, Lake Oswego, OR 97034	(503) 635-4588	94-06-04	withdrawn	w



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325	American Long Lines, Inc.	410 Horsham Road, Horsham, PA 19044	(215) 442-9608	96-05-23	withdrawn	w
326	American Teletronics Long Distance, Inc.	70 W Madison, Suite 5500, Chicago, IL 60602	(312) 372--7575	93-12-31	withdrawn	w
327	Caribbean Telephone and Telegraph, Inc.	1249 Washington Blvd., Suite 2015, Detroit, MI 48226	(313) 964-4340	95-06-01	withdrawn	w
328	Crystal Communications, Inc.	1933 Oceanview Drive, Terra Verde, FL 33715	(813) 867-2054	96-05-17	withdrawn	w
329	DialAmerica Marketing, Inc. d/b/a DialAmerica Cellular	960 MacArthur Boulevard, Mahwah, NJ 07495	(201) 327-0200	94-09-08	withdrawn	w
330	Fairfield County Telephone Corporation d/b/a Fairfield Telephone Company	CPCN withdrawn because Fairfield merged with MIDCOM				w
331	GE Capital Resom, L.P.	5757 West Century Boulevard, Suite 400, Los Angeles, CA 90045	(310) 410-0244	95-03-09	withdrawn	w
332	International Telemanagement Group, Inc.	206 East Market Street, Lima, OH 45802		94-05-02	withdrawn	w
333	Interstate Savings, Inc.	1015 18th St., N.W., Washington, DC 20036	(202) 638-0700	95-08-03	withdrawn	w
334	Jones Lightwave of Stamford, Inc.	9697 East Mineral Ave., Englewood, CO 80112	(303) 792-91911	94-01-28	withdrawn	w
335	Military Communications Center, Inc.	12400 Whitewater Dr., Suite 2010, Minnetoka, MN 55343	(612) 945-2300	94-01-09	withdrawn	w
336	Pacific Bell Communications	5850 West Las Positas Boulevard, Pleasanton, CA 94588	(510) 468-5000	97-03-24	withdrawn	w
337	Premier Billing Services, Inc.	5132 West Washington Street, Springfield, IL 62707-9292	(217) 793-7101	94-01-32	withdrew 7/8/96- insolvent	w
338	RealCom Office Communications, Inc.	2030 Powers Ferry Road, Suite 500, Atlanta, GA 30339	(404) 859-9020	93-08-17	withdrawn	w
339	SNET America, Inc	127 Washington Ave., 5th FL, North Haven, CT 06473	(800) 808-7638	93-08-06	withdrawn Decision 4/13/94	w
340	Suntel North America, Inc.	Centre Square, 1500 Market Street, 12th Floor, East Tower, Philadelphia, PA 19102	(215) 875-1500	93-07-14	withdrawn	w
341	TeleDebit, Limited Partnership	1453 Tallevast Road, Sarasota, FL 34243	(941) 359-3065	93-01-17	withdrawn	w
342	Touchtone Network, Inc.	3550 Biscayne Boulevard, Suite 705, Miami, FL 36502	(305) 576-6166	94-10-10	withdrawn	w
343	Travel Phone Card Communications, Inc.	443 Park Avenue South, New York, NY 10016	(212) 889-0800	96-04-12	8/26/97	w
344	US OneCommunications Services Corp.	5400 LBJ Freeway, Suite 700, Dallas, TX 75240	(972) 376-8500	97-03-08	withdrawn	w
345	ATX Telecommunications Services	50 Monument Road, Bala Cynwyd, PA 19004	(610) 668-3000	95-10-23	app rej.	x



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346	Conquest Operator Services Corp.	5500 Frantz Rd, Suite 125, Dublin, OH 43017	(614) 764-2933	93-03-03	pstpd ind	x
347	Federated Telephone Company, Inc.	17 East 45th Street, Suite 815, New York, NY 10017	(212) 968-2218	94-06-44	denied 9/13/95	x
348	Global Telecommunications Solutions, Inc.	40 Elmont Road, Elmont, NY 11003	(516) 326-1940	95-12-22	docket closed	x
349	Minimum Rate Pricing, Inc.	300 Broadacres Drive, P. O. Box 8000, Bloomfield, NJ 07003		95-11-11	app ng closed 1/31/96	x
350	Northwest Communications, Inc.	6950 SW Hampton, Suite 200, Togard, OR 97005	(503) 641-5169	96-04-10	dopcket closed	x
351	Total National Telecommunications, Inc. d/b/a Total World Netcom		(713) 308-1000	96-03-08	denied 5/28/97	x
352	U.S. Telcom Group, Inc.	822 The Pittock Building, 921 SW Washington, Portland, OR 97205-2827	(503) 227-6222	95-08-15	denied 1/4/96	x



**ATTACHMENT E**

**SBC's 1996 AUDITED FINANCIAL STATEMENTS**



**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**Date of Report: May 8, 1997**

**SBC COMMUNICATIONS INC.**

**A Delaware Corporation**

**Commission File No. 1-8610**

**IRS Employer No. 43-1301883**

**175 E. Houston, San Antonio, Texas 78205**

**Telephone Number (210) 821-4105**



## **Item 7. Financial Statements and Exhibits**

On April 1, 1997, SBC Communications Inc. (SBC) and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock (equivalent to approximately 313 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC.

SBC presents herein audited consolidated financial statements of SBC to reflect the business combination of SBC and PAC. This report includes the consolidated balance sheets of SBC Communications Inc. (SBC) as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996.

### **(a) SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS OF SBC COMMUNICATIONS INC. AND PACIFIC TELESIS GROUP**

The following audited supplemental consolidated financial statements and notes thereto are presented with the merger accounted for as a "pooling of interests." Under this method of accounting, SBC restates its consolidated financial statements to include the assets, liabilities, shareowners' equity and results of operations of PAC. These are supplemental consolidated financial statements which will become the historical consolidated financial statements of SBC upon issuance of financial statements for the quarter ending June 30, 1997.

The following audited supplemental consolidated financial statements have been prepared using the exchange ratio of 0.73145:



## Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	1996	1995	1994	1993	1992
<b>Financial Data</b>					
Operating revenues	\$ 23,486	\$ 21,712	\$ 21,006	\$ 20,084	\$ 19,258
Operating expenses	\$ 17,650	\$ 16,592	\$ 16,056	\$ 17,077	\$ 15,014
Operating income	\$ 5,836	\$ 5,120	\$ 4,950	\$ 3,007	\$ 4,244
Interest expense	\$ 812	\$ 957	\$ 935	\$ 1,005	\$ 1,036
Equity in net income of affiliates	\$ 207	\$ 120	\$ 226	\$ 250	\$ 208
Income taxes	\$ 1,960	\$ 1,519	\$ 1,448	\$ 658	\$ 1,161
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes <sup>1</sup>	\$ 3,189	\$ 2,958	\$ 2,777	\$ 1,589	\$ 2,455
Net income (loss)	\$ 3,279	\$ (3,064)	\$ 2,800	\$ (2,474)	\$ 2,424
<b>Earnings per common share:</b>					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes <sup>1</sup>	\$ 3.46	\$ 3.22	\$ 3.04	\$ 1.76	\$ 2.74
Net income (loss)	\$ 3.56	\$ (3.33)	\$ 3.07	\$ (2.74)	\$ 2.71
Total assets	\$ 39,485	\$ 37,112	\$ 46,113	\$ 47,695	\$ 45,588
Long-term debt	\$ 10,930	\$ 10,409	\$ 10,746	\$ 10,588	\$ 10,923
Construction and capital expenditures	\$ 5,481	\$ 4,338	\$ 3,981	\$ 4,021	\$ 3,969
Free cash flow <sup>2</sup>	\$ 1,935	\$ 2,452	\$ 2,952	\$ 2,147	\$ 2,452
Dividends declared per common share <sup>3</sup>	\$ 1.72	\$ 1.65	\$ 1.58	\$ 1.51	\$ 1.46
Book value per common share <sup>4</sup>	\$ 10.56	\$ 9.15	\$ 14.58	\$ 16.69	\$ 19.51
Ratio of earnings to fixed charges	5.34	5.24	5.01	2.91	4.06
Return on weighted average shareowners' equity <sup>5</sup>	33.73%	23.97%	24.97%	21.23%	14.24%
Debt ratio <sup>4</sup>	55.49%	61.73%	48.57%	45.30%	43.32%
<b>Operating Data*</b>					
EBITDA <sup>6</sup>	\$ 9,945	\$ 9,154	\$ 8,774	\$ 6,750	\$ 7,796
Network access lines in service (000)	31,370	29,989	28,918	28,018	27,275
Access minutes of use (000,000)	123,303	112,874	100,800	93,877	88,035
Wireless customers (000)	4,433	3,672	2,992	2,049	1,413
Number of employees	109,870	108,189	110,390	113,755	116,523

\*Operating data may be periodically revised to reflect the most current information available.

<sup>1</sup> 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; 1994-1992, Income (loss) from spun-off operations; and 1993, Early Extinguishment of Debt and Cumulative Effect of Changes in Accounting Principles.

<sup>2</sup> Free cash flow is net cash provided by operating activities less construction and capital expenditures.

<sup>3</sup> Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by PAC prior to the merger.

<sup>4</sup> Shareowners' equity used in book value per common share and debt ratio calculations includes extraordinary loss and changes in accounting principles.

<sup>5</sup> Calculated using income before extraordinary loss and changes in accounting principles. These impacts are included in shareowners' equity.

<sup>6</sup> EBITDA is earnings before interest, taxes, depreciation and amortization (operating income plus depreciation and amortization). SBC considers EBITDA an important component in our economic value added systems as an indicator of the operational strength and performance of our businesses. It is provided as supplemental information and is not intended to be a substitute for operating income, net income or net cash provided by operating activities as a measure of financial performance or liquidity.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services and equipment, directory advertising and cable television services.

On April 1, 1997, SBC completed a merger which resulted in Pacific Telesis Group (PAC) becoming a wholly-owned subsidiary of SBC. Among PAC's subsidiaries are Pacific Bell (PacBell) and Nevada Bell. The merger was accounted for as a pooling of interests and a tax-free reorganization. Accordingly, the financial statements for the periods presented have been restated to include the accounts of PAC (see Note 3 to the financial statements).

SBC's largest subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services over approximately 15 million access lines in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), and PacBell providing telecommunications services over approximately 16 million access lines in California. SBC also provides telecommunications services through its Nevada Bell subsidiary over approximately 300 thousand access lines in Nevada. (SWBell, PacBell and Nevada Bell are collectively referred to as the Telephone Companies.) The Telephone Companies are subject to regulation by each of the states in which they operate and by the Federal Communications Commission (FCC).

This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes.

### Results of Operations

#### Summary

Financial results, including percentage changes from the prior year, are summarized as follows:

	Percent Change				
	1996	1995	1994	1996 vs. 1995	1995 vs. 1994
Operating revenues	\$ 23,486	\$ 21,712	\$ 21,006	8.2%	3.4%
Operating expenses	\$ 17,650	\$ 16,592	\$ 16,056	6.4%	3.3%
Income before extraordinary loss and cumulative effect of accounting change	\$ 3,189	\$ 2,958	\$ 2,800	7.8%	5.6%
Extraordinary loss	-	\$ (6,022)	-	-	-
Cumulative effect of accounting change	\$ 90	-	-	-	-
Net income (loss)	\$ 3,279	\$ (3,064)	\$ 2,800	-	-

SBC recognized an extraordinary loss in 1995 from the discontinuance of regulatory accounting at SWBell and PacBell.

The primary factors contributing to the increase in income before extraordinary loss and cumulative effect of accounting change in 1996 were growth in demand for services and products at the Telephone Companies and Southwestern Bell Mobile Systems, Inc. (Mobile Systems).



## Management's Discussion and Analysis, continued

Dollars in millions except per share amounts

The primary factors contributing to the increase in income before extraordinary loss and cumulative effect of accounting change in 1995 were growth in demand for services and products at the Telephone Companies and Mobile Systems, and an after-tax gain of \$111 associated with the merger of SBC's United Kingdom cable television operations into TeleWest P.L.C. (TeleWest). These factors were partially offset by an after-tax charge of \$88 recorded in connection with SBC's strategic functional realignment and revenue shortfalls due to the introduction of intraLATA long-distance competition in California.

Items affecting the comparison of the operating results between 1996 and 1995, and between 1995 and 1994, are discussed in the following sections.

### Operating Revenues

Total operating revenues increased \$1,774, or 8.2%, in 1996 and \$706, or 3.4%, in 1995. Components of total operating revenues, including percentage changes from the prior year, are as follows:

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Local service					
Landline	\$ 8,754	\$ 8,118	\$ 7,494	7.8%	8.3%
Wireless	2,676	2,247	1,749	19.1	28.5
Network access					
Interstate	4,008	3,770	3,525	6.3	7.0
Intrastate	1,823	1,744	1,679	4.6	3.8
Long-distance service	2,240	2,072	2,923	8.1	(29.1)
Directory advertising	1,985	1,984	1,950	0.1	1.7
Other	2,000	1,777	1,686	12.5	5.4
	\$ 23,486	\$ 21,712	\$ 21,006	8.2%	3.4%

**Local Service** Landline revenues increased in 1996 due to increases in demand, primarily increases in residential and business access lines and vertical services revenues. Total access lines increased 4.6% in 1996, of which 34% was due to growth in Texas and 46% to growth in California. Access lines in Texas and California account for approximately 80% of the Telephone Companies' access lines. Approximately 34% of access line growth in 1996 was due to sales of additional access lines to existing residential customers. Vertical services revenues, which include custom calling options, Caller ID and other enhanced services, also increased in 1996.

Effective January 1, 1995, the California Public Utilities Commission (CPUC) authorized interexchange carriers and others to compete with PacBell in providing intraLATA long-distance service in California. That decision also rebalanced prices for most of PacBell's regulated services, which increased landline local service prices, so that PacBell could remain competitive in the new environment. Landline local service revenues increased in 1995 due to price rebalancing in California, which increased revenue by \$379, and increases in demand at the Telephone Companies, primarily increases in residential and business access lines and vertical services revenues. These increases were somewhat offset by price cap revenue reductions ordered by the CPUC. The increased local service revenues resulting from price rebalancing were more than offset by a related \$616 decrease in long-distance revenues. Total access lines increased 3.7% in 1995, of which 37% was due to growth in Texas and 43% to growth in California. Approximately



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

32% of access line growth in 1995 was due to the sales of additional access lines to existing residential customers. Vertical services revenues also increased in 1995.

Wireless revenues relate to Mobile Systems operations and increased in 1996 and 1995 due primarily to the growth in the number of Mobile Systems' cellular customers of 20.7% and 22.7%. These increases were partially offset by slight declines in average revenue per customer. Beginning in 1997, wireless revenues will also reflect personal communications services (PCS) operations in California and Nevada.

Mobile Systems had 4,398,000 customers in areas in which they were one of the two incumbent providers and 35,000 resale customers at December 31, 1996. These customer amounts were 3,659,000 and 13,000, respectively, at December 31, 1995.

**Network Access** Interstate network access revenues increased in 1996 and 1995 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increases in both years. Net rate reductions under the FCC's revised price cap plan, which were effective August 1, 1995, partially offset these increases by approximately \$115 in both 1996 and 1995.

Intrastate network access revenues increased in 1996 and 1995 due primarily to increases in demand, including usage by alternative intraLATA toll carriers. The increase in 1995 was partially offset by the decrease in prices due to the introduction of competition for long-distance services in California.

**Long-Distance Service** In 1996 and 1995 PAC provided approximately 55% - 60% of SBC's long-distance revenues. Overall, long-distance revenues increased in 1996 due principally to increases in demand resulting from California's growing economy and growth in Mobile Systems' long-distance revenues, including interLATA service that began in February 1996. Additionally, long-distance service revenues increased due to the inclusion in 1995 of SWBell intraLATA toll pool settlement payments and accruals for rate reductions relating to an appealed 1992 rate order in Oklahoma. The settlement of the appeals in October 1995 eliminated the need to continue these accruals. Absent these accruals and settlements, SWBell long-distance service revenues in 1996 would have decreased slightly due to the continuing impact of price competition from alternative intraLATA toll carriers. Long-distance service revenues decreased in 1995 primarily due to an approximate 40% reduction in intraLATA long-distance prices in California resulting from the introduction of competition for those services and the related regulatory price rebalancing. Additionally, SWBell long-distance services revenues experienced decreases, reflecting competition-related decreases in residential message volumes and the impact of optional calling plans and extended area service plans.

**Directory Advertising** revenues were relatively unchanged in 1996 as increased yellow pages revenues from Southwestern Bell Yellow Pages, Inc. (Yellow Pages) and Pacific Bell Directory (PBDirectory) were offset by the decrease resulting from the January 1996 sale of SBC's publishing contracts for GTE Corporation's service areas to GTE Directories. Excluding the impact of this sale, revenues increased 5.1% in 1996. Results for 1995 reflect growth in yellow pages revenues, partially offset by the impact of increased competition.

**Other operating revenues** in 1996 and 1995 reflect the increased demand for voice-messaging services, Caller ID equipment, computer network services, computer programming services and videoconferencing services. Other increases in 1996 were attributable to revenues from new business initiatives, such as wireless cable and internet services. The increase in 1995 was



## Management's Discussion and Analysis, continued

Dollars in millions except per share amounts

partially offset by the decrease in equipment sales revenues at Mobile Systems resulting primarily from declining equipment prices.

### Operating Expenses

Total operating expenses increased \$1,058, or 6.4%, in 1996 and \$536, or 3.3%, in 1995. Components of total operating expenses, including percentage changes from the prior year, are as follows:

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Cost of services and products	\$ 8,220	\$ 7,864	\$ 7,917	4.5%	(0.7%)
Selling, general and administrative	5,321	4,694	4,315	13.4	8.8
Depreciation and amortization	4,109	4,034	3,824	1.9	5.5
	\$ 17,650	\$ 16,592	\$ 16,056	6.4%	3.3%

**Cost of Services and Products** increased in 1996 due to increases at the Telephone Companies for network expansion and maintenance, employee compensation and demand-related increases. Other increases in 1996 reflect growth at Mobile Systems, costs incurred to prepare for local competition and PAC's new business initiatives, such as PCS, Internet access and network integration. These increases were partially offset by PAC's decreased employee benefits expenses due to changes in employee benefit plans and benefit plan assumptions (see Note 9 to the financial statements). In 1995, expenses decreased primarily due to decreased California pool settlements with other local exchange carriers, force reductions at PacBell, and decreased equipment costs at Mobile Systems. The absence of expenses associated with SBC's United Kingdom cable television operations (discussed in Other Business Matters) also contributed to the decrease in 1995. These decreases were mostly offset by increases at the Telephone Companies for network expansion and maintenance, demand-related increases for enhanced services, and employee compensation at SWBell.

**Selling, General and Administrative** expenses increased in 1996 primarily due to growth-related increases at Mobile Systems and the Telephone Companies, including contracted services, employee compensation and software costs. The increase in 1996 also reflects PAC's expenses incurred to prepare support systems for local competition and for new business initiatives, including long-distance. In 1995, expenses increased primarily due to growth-related increases at Mobile Systems and SWBell, including contracted services and advertising, the \$139 charge for costs associated with the strategic realignment discussed in Other Business Matters, and software costs at PAC. These increases were somewhat offset by force reductions at PacBell. Also contributing to the increases in both 1996 and 1995 were increases in operating taxes at SWBell, which include the Texas Infrastructure Fund assessments.

**Depreciation and Amortization** increased in 1996 and 1995 due primarily to growth in plant levels and changes in plant composition, primarily at the Telephone Companies and Mobile Systems. The increase in 1995 also reflects the effect of regulatory depreciation represcription at the Telephone Companies.



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

**Interest Expense** decreased \$145, or 15.2%, in 1996 due to a change in PAC's capital structure which replaced a portion of interest expense with amounts recorded as Other Income (Expense) (see Note 7 to the financial statements), lower long-term debt levels in SBC subsidiaries other than PAC, and capitalization of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995. Under regulatory accounting, the Telephone Companies accounted for capitalization of both interest and equity costs during periods of construction as other income.

**Equity in Net Income of Affiliates** increased \$87 in 1996 and decreased \$106 in 1995. The 1996 increase reflects: increased income from Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, due to the relative stabilization of the peso; net gains on international affiliate transactions; and improved results from SBC's investment in French cellular operations, reflecting lower level of losses in its second year. Results for 1995 include losses on SBC's United Kingdom cable television operations, which were accounted for under the equity method prior to October 1995, and exchange losses on the non-peso denominated debt of Telmex. Results for 1996 and 1995 also reflect reductions in the translated amount of U.S. dollar earnings from Telmex's operations. Operational growth at Telmex in both years somewhat offset these declines. The 1995 decrease was also attributable to SBC's investment in French cellular operations and PAC's video-related joint venture.

SBC's future earnings from Telmex will continue to be sensitive to changes in the value of the peso. SBC's investment in Telmex has been recorded under U.S. generally accepted accounting principles (GAAP), which exclude inflation adjustments and include adjustments for the purchase method of accounting. Beginning in 1997, SBC will use the U.S. dollar, instead of the peso, as the functional currency for its investment in Telmex due to the Mexican economy becoming highly inflationary as defined by GAAP. Earnings in 1997 will reflect SBC's reduced ownership percentage in Telmex as discussed in Note 5 to the financial statements. These changes are each expected to have a slightly negative impact on Equity in Net Income from Telmex.

**Other Income (Expense) - Net** decreased \$276 in 1996 and increased \$210 in 1995. In 1995, SBC recognized a gain from the merger of SBC's United Kingdom cable television operations into TeleWest (see Note 13 to the financial statements) and interest income from tax refunds. The increase was somewhat offset by expenses associated with the refinancing of long-term debt by the Telephone Companies (see Note 6 to the financial statements). Results for 1996 reflect the inclusion in 1995 of these items and decreases due to the reclassification of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995 as well as distributions paid on Trust Originated Preferred Securities (TOPrS), as noted in the discussion of Interest Expense (see Note 7 to the financial statements).

**Income Tax expense** increased \$441, or 29.0%, in 1996 and \$71, or 4.9%, in 1995, primarily due to higher income before income taxes. In 1995, tax refunds received at PAC somewhat offset the increase. The elimination of excess deferred taxes and the reduction in the amortization of investment tax credits resulting from the discontinuance of regulatory accounting, as described in Note 2 to the financial statements, also contributed to the increases in both years.

**Extraordinary Loss** In 1995, SBC recorded an extraordinary loss of \$6 billion from the discontinuance of regulatory accounting. The loss included a reduction in the net carrying value of telephone plant and the elimination of net regulatory assets of SWBell and PacBell (see Note 2 to the financial statements).



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

**Cumulative Effect of Accounting Change** As discussed in note 1 to the financial statements, PBDirectory changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. The cumulative after-tax effect of applying the new method to prior years is recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of \$90, or \$0.10 per share. The gain is net of deferred taxes of \$53. Management believes this change to the issue basis method is preferable because it is the method generally followed in the publishing industry, including Yellow Pages, and better reflects the operating activity of the business. This accounting change is not expected to have a significant net income effect on future periods.

## **Operating Environment and Trends of the Business**

### **Regulatory Environment**

The Telephone Companies' telecommunications operations are subject to regulation by each of the seven states in which they operate for intrastate services and by the FCC for interstate services. The Telephone Companies operate under incentive regulation, or price caps, for various services provided by the Telephone Companies. Under price cap regulation, the Telephone Companies are permitted to establish and modify prices, not to exceed the price caps, subject to expedited approval by the governing jurisdiction. Prices for some other services not specifically covered by price caps are also subject to regulatory approval.

The FCC adopted revised interim price cap rules effective August 1, 1995 that govern the prices that the larger Local Exchange Carriers (LECs), including the Telephone Companies, charge interexchange carriers for access to local telephone networks. Price caps set by the FCC are adjusted annually for inflation, a productivity offset and certain other changes in costs. The productivity offset is a fixed percentage used to reduce price caps and is designed to encourage increased productivity. The revised rules allow a choice of three productivity offsets, two of which provide for a sharing of profits with consumers above certain earnings levels and the third of which has no sharing. Through 1996, the Telephone Companies elected the 5.3% productivity offset with no sharing.

The revised FCC price cap plan was intended to be an interim plan that would be revised in 1996. However, with the passage of the Telecommunications Act of 1996 (the Telecom Act), the FCC is conducting further proceedings to address various pricing and productivity issues, and is performing a broader review of price cap regulation in a competitive environment. Additionally, the FCC has stated it will examine universal service and access charge rules during 1997. The Telecom Act and FCC actions taken to implement provisions of the Telecom Act are discussed further under the heading "Competition."

The states' regulatory bodies set intrastate price caps on various services for various periods, depending upon the state. The price cap plans in California and Nevada included sharing mechanisms; however, beginning in 1997, Nevada implemented a new price cap plan which eliminated the sharing mechanism.

Following is a summary of significant state regulatory developments.

**California** The CPUC's form of price caps requires PacBell to submit an annual price cap filing to determine prices for categories of services for each new year. The price cap plan includes a sharing mechanism that requires PacBell to share its earnings with customers at certain earnings levels. Price adjustments reflect the effects of any change in inflation less productivity as well as adjustments for certain exogenous cost changes. In December 1995, the CPUC issued an order in its review of the regulatory framework in California that suspended use of the "inflation minus productivity" component of the price cap formula for 1996 through 1998. This action freezes the price caps on most of PacBell's regulated services for the years 1996 through 1998 except for adjustments due to exogenous costs or



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

price changes approved through the CPUC's price cap filing process. In December 1996, the CPUC adjusted PacBell's rates due to various exogenous cost changes by an annual revenue reduction of approximately \$66 annually, effective January 1, 1997.

The CPUC issued its final decision on universal service on October 25, 1996, establishing an annual California universal service fund of approximately \$352 that will subsidize high cost service. Customers of all telecommunications providers will contribute to the universal service fund via a 2.87% surcharge on all bills for telecommunications services provided in California. Effective February 1, 1997, the universal service fund will subsidize the provision of service in high cost areas. In order to ensure revenue neutrality, PacBell must reduce its rates dollar for dollar for amounts received from the fund via an across the board surcredit on all products and services (except residential basic exchange services) or permanent price reductions for those services that previously subsidized universal service. The fund was intended to allow PacBell to eliminate high cost subsidies from its prices, positioning PacBell for competition. Initially, PacBell expects to receive \$305 annually from the fund based on CPUC estimates of the cost of providing universal service. Management believes the new program underestimates the cost of providing universal service. PacBell estimates that the average cost of providing service is up to 33% higher per line per month than the CPUC estimate, which could result in high cost area subsidies remaining in prices for competitive services. If this continues, it would place PacBell at a competitive disadvantage.

In 1992, the CPUC issued a decision adopting, with modification, Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (FAS 106), for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately \$100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending further proceedings. On April 9, 1997, the CPUC completed these proceedings and reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

The FCC adopted new separations rules effective May 1, 1997 that shift recovery of substantial other billing and collections costs to the interstate jurisdiction. This rule change could reduce PacBell's revenues by about \$30 in 1997 and about \$45 in each subsequent year. Management is evaluating options to mitigate this effect on net income.

In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to customers. Intervenors have asserted that as much as \$20 of annual property tax savings should be treated as an exogenous cost reduction in PacBell's annual price cap filings. These intervenors have also asserted that past property tax savings totaling as much as approximately \$70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution of the criteria for exogenous cost treatment under its regulatory framework.

**Texas** The Public Utility Regulatory Act, which became effective in May 1995 (PURA), allows SWBell and other LECs to elect to move from rate of return regulation to price regulation with elimination of earnings sharing. In September 1995, SWBell notified the Texas Public Utility Commission (TPUC) that



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

it elected incentive regulation under the new law. Basic local service rates are capped at existing levels for four years following the election. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers while rates are capped.

LECs electing price regulation must commit to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. PURA provided for a total fund assessment of \$150 annually on all telecommunications providers in Texas for a ten-year period, half of which would be paid by the cellular and wireless industry. The provisions establishing different assessment rates for landline and cellular and wireless service providers were ruled unconstitutional under the Texas constitution in January 1996, and the lower rate was ordered to be applied to both categories of service providers, resulting in less than a \$150 annual assessment. Based on this order, SBC's total annual payment is estimated to be approximately \$35 to \$45. The 1997 Texas legislative session is considering this issue with the stated goal of restoring the assessment to its original \$150 annual amount. As a result, SBC's annual payment could increase.

PURA establishes local exchange competition by allowing other companies that desire to provide local exchange services to apply for certification by the TPUC, subject to certain build-out requirements, resale restrictions and minimum service requirements. PURA provides that SWBell will remain the default carrier of "1 plus" intraLATA long-distance traffic until SWBell is allowed to carry interLATA long-distance.

In 1996, MCI Communications Corporation (MCI) and AT&T Corp. (AT&T) sued the state of Texas, alleging that PURA violates the Texas state constitution, and claiming that PURA establishes anticompetitive barriers designed to prevent MCI, AT&T and Sprint Corporation (Sprint) from providing local services within Texas. SBC is unable to predict the outcome of this proceeding. During 1996, the TPUC approved the application of Sprint for a certificate of authority to provide local service, waiving the build-out requirements specified under state law for facilities-based certificates of authority. TPUC has also requested the FCC issue an expedited ruling on whether PURA's build-out requirements are lawful under the Telecom Act. AT&T and MCI have also filed petitions with the FCC arguing the build-out requirements should be preempted; they have also requested TPUC grant them similar treatment as Sprint. In a preliminary ruling, the TPUC has waived build-out requirements for them.

More than 100 applications to provide competitive local service certification have been approved by the TPUC, with over 30 more applications pending approval. As a result, SWBell expects competition to continue to develop for local service, but the specific financial impacts of this competition cannot be reasonably estimated until all required tariff filings are approved by the TPUC for SWBell and other companies intending to provide local service.

**Missouri** During 1996, the 1995 Cole County Circuit Court ruling which overturned the August 1994 settlement agreement reached among SWBell, the Missouri Public Service Commission (MPSC) and the Office of Public Counsel (OPC) was upheld on appeal. The practical effect of this decision is to eliminate the prospective commitments under the settlement agreement, including a rate review moratorium and capital investment commitments. The decision has no immediate impact on SWBell's current rates because they were approved by the MPSC in separate proceedings, which were not appealed.



## **Management's Discussion and Analysis, continued**

Dollars in millions except per share amounts

**Oklahoma** On October 30, 1995, the Oklahoma Corporation Commission (OCC) approved a settlement that resolved pending court appeals of a 1992 rate order. Under the terms of the settlement, SWBell paid a cash settlement of \$170 to business and residential customers, and offered discounts with a retail value of \$268 for certain SWBell services. Previously ordered rate reductions of \$100 were lowered to \$84, of which \$57 had already been implemented. The settlement allowed the remaining \$27 in rate reductions to be deferred, with approximately \$9 becoming effective in 1996 and the remainder during 1997. The settlement also provides that no overearnings complaint can be filed against SWBell until January 1, 1998. SWBell began accruing for the order in 1992, and the settlement and associated costs had been fully accrued as of the end of the third quarter of 1995.

### **Competitive Environment**

Competition continues to increase in the telecommunications industry. Recent changes in legislation and regulation have increased the opportunities for alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. Accordingly, SBC faces increasing competition in significant portions of its business.

#### **Domestic**

On February 8, 1996, the Telecom Act was enacted into law. The Telecom Act is intended to address various aspects of competition within, and regulation of, the telecommunications industry. The Telecom Act provides that all post-enactment conduct or activities which were subject to the consent decree, referred to as the Modification of Final Judgment (MFJ), issued at the time of AT&T's divestiture of the Regional Holding Companies (RHCs) are now subject to the provisions of the Telecom Act. In April 1996, the United States District Court for the District of Columbia issued its Opinion and Order terminating the MFJ and dismissing all pending motions related to the MFJ as moot. This ruling effectively ended 13 years of RHC regulation under the MFJ. Among other things, the Telecom Act also defines conditions SBC must comply with before being permitted to offer interLATA long-distance service within California, Texas, Missouri, Kansas, Oklahoma, Arkansas, and Nevada (regulated operating areas) and establishes certain terms and conditions intended to promote competition for the Telephone Companies' local exchange services.

Under terms of the Telecom Act, SBC may immediately offer interLATA long-distance outside the regulated operating areas and over its wireless network both inside and outside the regulated operating areas. Before being permitted to offer landline interLATA long-distance service in any state within the regulated operating areas, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice, requires favorable determinations that the Telephone Companies have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities based carrier(s) that serve residential and business customers or, alternatively, that the Telephone Companies have a statement of terms and conditions effective in that state under which it offers the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations. The Telecom Act directed the FCC to establish rules and regulations to implement the Telecom Act, and to preempt specific state law provisions under certain circumstances. The Telecom Act also allows RHCs to provide cable services over their own networks, but sets limits on RHCs acquiring interests in cable television operations in their regulated operating areas.

In August 1996, the FCC issued rules by which competitors could connect with LECs' networks, including those of the Telephone Companies. Among other things, the rules addressed unbundling of network elements, pricing for interconnection and unbundled elements (Pricing Provisions), and resale of



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network services. The FCC rules were appealed by numerous parties, including SBC, other LECs, various state regulatory commissions and the National Association of Regulatory Utility Commissioners.

On October 15, 1996, the United States Court of Appeals for the Eighth Circuit (Eighth Circuit) issued an order to stay the FCC's Pricing Provisions and its rules permitting new entrants to "pick and choose" among the terms and conditions of approved interconnection agreements. The stay provides that it will remain in effect while the Eighth Circuit considers the validity of the rules. Other provisions of rules adopted by the FCC to implement the Telecom Act remain in effect.

The effects of the FCC rules are dependent on many factors including, but not limited to: the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC rules.

### **Landline Local Service**

Recent state legislative and regulatory developments also allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with state commissions throughout the Telephone Companies' regulated operating areas, and the commissions of each state have begun approving these applications. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' network and exchange local calls must enter into interconnection agreements with the Telephone Companies, which are then subject to approval by the appropriate state commission. There have been approximately 190 companies approved by state commissions to provide local telephone service throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. There are approximately 70 more applications pending approval before the state commissions. Several companies who have failed to agree on all interconnection terms have filed for arbitration before the state commissions.

The CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. Several issues still need to be resolved before the CPUC issues final rules for local competition. These issues include final rates for resale, presubscription, implementation of number portability and LEC provisioning and pricing of essential network functions to competitors. In order to provide services to resellers, PacBell uses established operating support systems, and has implemented electronic ordering systems and a customer care/billing center. Costs to implement local competition, especially number portability, will be material and it is uncertain whether regulators will allow for recovery of these costs. The CPUC expects to issue final rules on presubscription in early 1997 and final rates and rules for all other issues in late 1997. It is anticipated that competition will be targeted mainly to high-density areas, where higher margins may be achieved. Many of these competitors have placed facilities in service and begun extensive advertising campaigns.

In October 1996, in a consolidated arbitration hearing between SWBell and AT&T, MCI, MFS Communications Company, Inc. (MFS), Teleport Communications Group, and American Communications Services, Inc., the TPUC approved interconnection rates to be charged by SWBell as well as certain other terms of interconnection between the parties. SWBell also filed revised cost support for the establishment of rates with the TPUC which may be subject to further hearings. SWBell, AT&T and MCI filed suit in state and federal court maintaining that, for various reasons, the arbitration award is unlawful. SWBell has TPUC-approved interconnection agreements with 26 local service providers, with 17 pending approvals as of April 15.



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In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI and on selected items with MFS. Among other terms, the orders established discount rates for resale of SWBell services and prices for unbundled network elements. SWBell has filed suit in federal court appealing the orders as unlawful.

As a result of the Telecom Act and conforming interconnection agreements, the Telephone Companies expect in 1997 they will experience local exchange competition from multiple providers in various markets. Management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, vertical services and new service areas. SBC intends to use approved agreements in support of its application to the FCC to provide interLATA long-distance service in the Telephone Companies' regulated operating areas.

The Telephone Companies also face competition from various local service providers that bypass the local exchange network. Some of these providers have built fiber optic "rings" throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers. Others provide high-usage customers, particularly large businesses, alternative telecommunications links for voice and data, such as private network systems, shared tenant services or private branch exchange (PBX) systems (which are customer-owned and provide internal switching functions without using a telephone company's central office facilities). The extent of the economic incentive to bypass the local exchange network depends upon local exchange prices, access charges, regulatory policy and other factors. End user charges previously ordered by the FCC are designed in part to mitigate the effect of system bypass.

### **Wireless Local Service**

In 1993, the FCC adopted an order allocating radio spectrum and licenses for PCS. PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC acquired PCS licenses in the Major Trading Areas (MTAs) of Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover all of California and Nevada. SBC is currently in the build out phase of PCS in most of its California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other consideration.

In November 1996, Pacific Bell Mobile Services (PBMS) conducted an extensive PCS trial in San Diego, California. Service was formally launched in San Diego in January 1997, in February 1997 in Las Vegas, Nevada, and in March 1997 in Sacramento, California. The network will incorporate the Global System for Mobile Communications ("GSM") standard which is widely used in Europe. PBMS is selling PCS as an off-the-shelf product in approximately 100 retail stores across San Diego County, about 60 retail stores in Las Vegas and about 80 retail stores in Sacramento. PBMS plans to offer PCS service in San Francisco and Los Angeles in the second quarter of 1997. Management expects a widespread offering of PCS service in most of California and Nevada by mid-1997. Management anticipates significant competition, particularly from the two established cellular companies in each market. However, a high quality product with PacBell's service reputation should enable PBMS to establish a significant presence in these markets.

In an FCC auction which concluded January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas (BTAs) that are within the five-state area. SBC plans to build out the new BTAs as part of



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its strategy to be a full service telecommunications provider (expected completion 1999). Including these new BTAs with existing cellular and PCS services, SBC will be able to offer wireless services to approximately 85% of its landline local service customers in the five-state area.

Companies granted licenses in MTAs and BTAs where SBC also provides service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. The degree of competition which SBC will encounter in its cellular markets will depend, in part, on the timing and extent of the build out of PCS services.

### **Long-distance**

Competition continues to intensify in the Telephone Companies' intraLATA long-distance markets. Principal competitors are interexchange carriers, bypass service interexchange carriers which are assigned an access code (e.g., "10XXX") used by their customers to route intraLATA calls through the interexchange carrier's network, and resellers, which sell long-distance services obtained at bulk rates. Effective January 1, 1995, the CPUC authorized intraLATA long-distance services competition in California. In April 1995, the CPUC also ordered PacBell to offer expanded interconnection to competitive access providers. These competitors are allowed to carry the intrastate portion of long-distance and intraLATA long-distance calls between PacBell's central offices and long distance carriers. Competitors may choose to locate their transmission facilities within or near PacBell's central offices. It is estimated that PacBell now serves less than 50% of the business intraLATA long-distance customers in its service areas. On April 11, 1997, SBC filed an application with the FCC for the provision of interLATA long-distance services in Oklahoma under the provisions of the Telecom Act. The OCC has approved SBC's application.

### **Other**

In the future, it is likely that additional competitors will emerge in the telecommunications industry. Cable television companies and electric utilities have expressed an interest in, or already are, providing telecommunications services. As a result of recent and prospective mergers and acquisitions within the industry, SBC may face competition from entities offering both cable TV and telephone services in the Telephone Companies' regulated operating areas. Interexchange carriers have been certified to provide local service, and a number of other major carriers have publicly announced their intent to provide local service in certain markets, some of which are in the Telephone Companies' regulated operating areas.

SBC is aggressively representing its interests regarding competition before federal and state regulatory bodies, courts, Congress and state legislatures. SBC will continue to evaluate the increasingly competitive nature of its business, and to develop appropriate competitive, legislative and regulatory strategies.

### **International**

Telmex was granted a concession in 1990, which expired in August 1996, as the sole provider of long-distance services in Mexico. In 1995, the Mexican Senate and Chamber of Deputies passed legislation encompassing a series of rules for the introduction of competition into the Mexican long-distance market previously issued by the Mexican Secretary of Communication and Transportation. Those rules specified that there would be an unlimited number of long-distance concessions and that Telmex was required to provide 60 interconnection points by January 1, 1997, and more than 200 interconnection points by the year 2000. Several large competitors have received licenses to compete with Telmex and begun operations, including a joint venture between AT&T and Alfa, a Mexican consortium, and Avantel, S.A., a joint venture between MCI and Grupo Financiero Banamex-Accival, Mexico's largest